



MINUTES

Professional Employer Organization Review Committee

January 12, 2005

MEMBERS PRESENT:

Senator David Johnson,
Co-chairperson
Senator Bill Dotzler
Senator Steve Kettering

Representative Jeff Elgin,
Co-chairperson
Representative Sandy Greiner
Representative David Jacoby

MEETING IN BRIEF

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- I. Procedural Business.
- II. Professional Employer Organization Company.
- III. National Association of Professional Employer Organizations (NAPEO).
- IV. Professional Employer Organization Clients.



Professional Employer Organization Review Committee

I. Procedural Business.

Call to Order. The Professional Employer Organization Review Committee was called to order by Temporary Co-chairperson Representative Jeff Elgin at 8:05 a.m., Wednesday, January 12, 2005, in Room 305 of the State Capitol Building in Des Moines, Iowa. The meeting was the Committee's one authorized meeting. All members of the Committee were present.

Preliminary Business. Senator David Johnson and Representative Jeff Elgin were elected Co-chairpersons of the interim committee. The Committee adopted rules.

Adjournment. The meeting adjourned at 9:18 a.m.

II. Professional Employer Organization Company.

Merit Resources Overview. Mr. John Hovey, President of Merit Resources of Urbandale, Iowa, addressed the Committee concerning professional employer organizations (PEOs). Merit Resources, a PEO, was started in 1989 and today has a coemployment relationship with businesses coemploying more than 5,000 employees. He indicated that the company has experienced a 35 percent rate of growth each year, with 10 percent of that growth originating from current clients.

Professional Employer Organization Description. Mr. Hovey described what professional employer organizations do as "human resource outsourcing." Essentially, the PEO enters into a coemployment relationship with the client business served and becomes the employer of the client's employees for purposes of paying payroll and taxes, and providing benefits. The business owner still directs the employees and provides the funds necessary to pay for benefits and wages. PEOs have been in existence for around 25 years and are most common in the southern and western parts of the United States.

Advantages of a Professional Employer Organization. Typically, businesses using a PEO are small to medium size companies with 10 to 150 employees. These small to medium size companies are generally not able to provide payroll processing, benefit administration, employee discipline, and general human resource benefits efficiently while still remaining focused on their core business. The advantage to employers of using a PEO is that the PEO can pool its resources among several businesses and provide more comprehensive benefits to employees than an individual business could provide while spreading the risk across the employers who use the PEO. In addition, the PEO can provide a small business with a more competitive benefits package in order to attract employees. For employees, the PEO provides access to better health care and benefit plans than an individual small business could provide.

Legislation Necessary. Legislation is requested at the state level in order to clearly define what a professional employer organization can do and the limits of the organization. In addition, legislation can create a regulatory environment with appropriate enforcement mechanisms to ensure that no disreputable professional employer organizations can operate in Iowa.



III. National Association of Professional Employer Organizations (NAPEO).

NAPEO Overview. Mr. Tim Tucker, Government Relations Manager of NAPEO, addressed the Committee. NAPEO has about 500 members in all 50 states and represents about 70 percent of the PEO industry. While most PEOs are located in Florida and Texas, the industry is rapidly growing and he estimated that there are around 700 PEOs located throughout the country. The average client of an NAPEO member PEO is a small business with 16 worksite employees. Mr. Tucker also indicated that PEO members of NAPEO retain nearly 86 percent of their clients for a year or more. Mr. Tucker stated that of the clients that end their PEO contracts, most do so as a result of going out of business, mergers, or becoming large enough to establish their own human resource departments.

Statutory Regulation Needed. Mr. Tucker identified the following five reasons to enact regulatory legislation concerning PEOs:

1. Establish a regulatory framework and legal certainty concerning PEOs.
2. Protect employer clients and workers from unscrupulous PEOs.
3. Ensure that PEOs are financially capable.
4. Relative uniformity across the United States will help PEOs.
5. Codify the fact that PEOs do not affect collective bargaining agreements.

Committee Discussion. Mr. Tucker indicated that 25 states have adopted legislation concerning PEOs and he indicated that the association believes a statewide approach to regulating PEOs is preferable. While Mr. Tucker indicated that the national association can provide some assistance in establishing self-regulating standards for member PEOs, statutory regulation is still needed to protect the public from unscrupulous PEOs that will not submit to voluntary regulation. Mr. Tucker also noted that the primary groups expressing concern about proposed legislation governing PEOs are independent insurance agents and labor organizations. He indicated that accommodations in the proposed legislation will be made, if necessary, in order to satisfy any concern that either group might have. He stated that PEOs are not intended to adversely impact labor organizations or independent insurance agents.

IV. Professional Employer Organization Clients.

A. Doextra, Des Moines, Iowa.

Ms. Sunnie Richer, President of Doextra, discussed her use of PEO Merit Resources for her business. She indicated that Doextra Corporation was formed in the mid-1990s as a software company that provides sales automation and customer relationship management solutions to clients. Prior to forming Doextra, Ms. Richer worked several years with IBM and Brenton Banks before starting her own company, Opis Corporation. She noted that one of the main challenges she faced when she started Opis was in finding pension, medical, and other benefits comparable to what is offered by large employers in order to attract skilled employees and that finding these benefits took a substantial amount of time. She noted that when Doextra was formed, she talked to Merit Resources and they have handled all her payroll and benefit needs since Doextra's



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inception. She indicated that PEOs are a great resource for small companies to allow them to provide benefits comparable to larger companies in a cost-efficient and time-efficient manner.

B. Mr. Terry Rich, CEO, Blank Park Zoo.

Mr. Rich addressed the Committee concerning his use of PEOs. He indicated that he has been a PEO client since 1992. He noted that small businesses find it difficult to provide adequate human resource services. He indicated that some regulation of the PEO industry is needed since small businesses looking for this assistance are vulnerable and need protection from unscrupulous PEOs. He noted that PEOs are ideally suited to assist nonprofit organizations and rural businesses, including farmers with several employees. Mr. Rich stated that PEOs are also useful in providing small businesses with assistance in complying with legal requirements related to hiring, firing, and employee discipline.

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